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Fiscal Cliff Averted: **How the American Taxpayer Relief Act Affects You**

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2013 Tax Rate Increases



Pre Fiscal Cliff

Provision	2011	2012	2013
Rates for ordinary income	35.0%		39.6%
	33.0%		36.0%
	28.0%		31.0%
	25.0%		28.0%
	15.0%		15.0%
	10.0%		15.0%
Top rates for investment income			
Long-term capital gains	15.0%		20.0%
Qualified dividends	15.0%		39.6%

American Taxpayer Relief Act 2012



Post Fiscal Cliff

	Rate	Single Filers	MFJ Filers
Ordinary Rates	10%	\$0 to \$8,925	\$0 to \$17,850
	15%	\$8,925 to \$36,250	\$17,850 to \$72,500
	25%	\$36,250 to \$87,850	\$72,500 to \$146,400
	28%	\$87,850 to \$183,250	\$146,400 to \$223,050
	33%	\$183,250 to \$398,350	\$223,050 to \$398,350
	35%	\$398,350 to \$400,000	\$398,350 to \$450,000
	39.6%	\$400,000 and above	\$450,000 and above

American Taxpayer Relief Act 2012



- › **Phase-out itemized deductions and exemptions**
 - **Applies to**
 - Single filers >\$250,000
 - MFJ filers > \$300,000
 - **Itemized deductions reduced by 3% of AGI in excess of threshold**
 - Limited to 80% of itemized deductions
 - **Does not include**
 - Medical expenses
 - Investment interest expense
 - Casualty losses
 - Gambling losses

American Taxpayer Relief Act 2012



- › 2% social security tax reduction on employee wages, eliminated for 2013

W-2 Form (2012)

NAME: PANTHERS
SSN: 123 456 789
FED: 00
ST1: 00
ST2: 00

STATUS: SINGLE
EXEMPT: 00

TAX ADJUSTMENTS
FED: 3
DI/UC: 00
LOCAL: 00 ST: 5

CHECK NO: 00
CHECK DATE: 01/01/13
PERIOD ENDING: 12/31/12
PAY FREQUENCY: 01

STATE AND LOCAL TAXES
PRI: 1L
SEC: 00

IMPORTANT MESSAGE

EARNINGS		TAXES AND DEDUCTIONS		SPECIAL INFORMATION	
Y-T-D	EARNINGS	DESCRIPTION	CURRENT AMOUNT	Y-T-D AMOUNT	
10487.02		SO SEC TAX	57.47	762.33	
453.85		MEDICARE TAX	13.44	178.29	
554.83		FED INC TAX	103.47	1350.59	
100.00		PRI-STATE TAX	22.08	288.52	
		TOTAL TAXES			
		LTD AFTER-TAX			

American Taxpayer Relief Act 2012



- › **Depreciation for 2012 & 2013**
 - **50% bonus depreciation**
 - **Sec.179 limitation \$500,000 (\$2M phase out)**
 - **15 year tax life for qualified leasehold, retail and restaurant property extended for 2012 & 2013**

- › **American Opportunity tax credit extended additional 5 years - this is for the “Hope & Lifetime” education credits**

American Taxpayer Relief Act 2012



- › **Nontaxable forgiveness of qualified principal residence indebtedness**
- › **Direct IRA-to-charity transfers up to \$100,000**
 - No tax on distribution for tax payers over age 70 ½
 - No charitable deduction

American Taxpayer Relief Act 2012



- › **Permanently patched AMT and indexed it to inflation**

AMT Exemption	Pre Cliff 2012	Post Cliff 2012
Single	\$33,750	\$50,600
Married Filing Joint	\$45,000	\$78,750

American Taxpayer Relief Act 2012



- › **Tax planning to take advantage of the 0% rate on Capital Gains & Qualified Dividends**

	Rate	Single Filers	MFJ Filers
Capital Gains & Qualified Dividends	0%	\$0 to 36,250	\$0 to \$72,500
	15%	\$36,250 to \$400,000	\$72,500 to \$450,000
	20%	\$400,000 and above	\$450,000 and above

American Taxpayer Relief Act 2012



Capital gains & dividends are considered highest rate element of a taxpayer's annual income:

MFJ filer

Earns	\$100,000	Wages
Add	<u>\$72,500</u>	LTCG/qualified dividends
Total	\$172,500	Adjusted gross income
Less	<u>\$100,000</u>	Itemized deductions
	\$72,500	Taxable income

Itemized deductions reduce ordinary income first.

Capital gains and dividends are taxed at 0% rate!

Estate & Gift Tax Changes



Pre Fiscal Cliff

Estate Tax	2011	2012	2013
Top rate	35.0%		55.0%
Annual Gift Tax Exemption	\$13K		\$14K

Gift Tax	2011	2012	2013
	Estate and gift tax regime reunified for 2011-2012 (\$5 million exemption for gifts with highest rate of 35%)		\$1 million lifetime exemption (55% top rate)

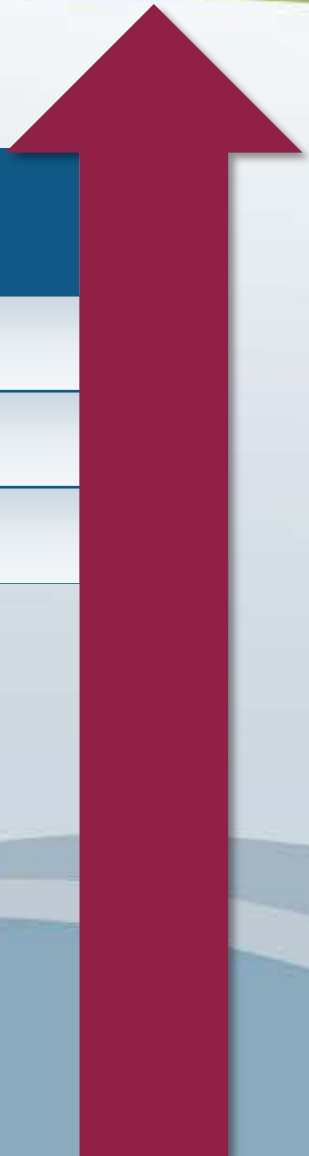


Estate & Gift Tax Changes



Post Fiscal Cliff

Estate & Gift Tax Regime	Reunified for 2013-Forward
Top rate	40.0%
Lifetime Exemption	\$5,000,000
Annual Gift Tax Exemption	\$14,000



The Medicare Surtax



Surprise!

Starting in 2013:

3.8%

**Medicare
Surtax**

imposed on certain
investment income
on high-income
tax payers.



The Medicare Surtax



Who

Individual taxpayer threshold amounts:

Single Taxpayer



\$200,000

**Married Filing
Jointly**



\$250,000

**Married Filing
Separately**



\$125,000

The Medicare Surtax



How

For Individuals the 3.8% surtax will be imposed on the lesser of:

- › **Net investment income for the tax year, or...**
- › **The amount by which the modified adjusted gross income (MAGI) exceeds the threshold amount in that year**

Medicare Surtax Example



Married Filing Jointly:

Husband and wife, filing jointly

Earn **\$200,000** in salaries

Plus **\$150,000** of net investment income
for **\$350,000** of total MAGI

The **3.8%** surtax applies to \$100,000 of income **since it is the lesser** of \$150,000 of net investment income or the excess over the MAGI threshold of \$250,000.



Medicare Surtax Example



Surtax is gross, not net tax:

Single filer

Earns **\$2,200,000** MAGI (all investment income)

Less **\$1,000,000** Charitable contribution

Less **\$1,100,000** Medical expenses

TI **\$100,000**



The **3.8%** surtax applies to \$2,000,000 of income **since it is the lesser** of \$2,200,000 of net investment income or the excess over the MAGI threshold of \$200,000.

What IS investment income?



Net investment income *includes* the following:

- › Interest, dividends, royalties, annuities
- › Net capital gains derived from the disposition of **property** (other than property held in an active trade or business)

Long-term capital gains	15.0%	20.0%	23.8%
Qualified dividends	15.0%	39.6%	23.8%

- › Income derived from passive activities

Rental Income



What IS investment income?




Net investment income *does not* include the following:

- › Wages or salary
- › Active trade or business income
- › Distributions from IRAs or qualified retirement plans
- › Income from tax-exempt municipal bonds

CO. FILE DEPT. CLOCK NUMBER
ABC 125543 123456 12345 00000003 1

ACME SUPPLIES CORP.
475 KNAPP AVENUE
ANYTOWN, USA 10101

Earnings Statement 

Period ending: 12/19/2000
Pay date: 12/26/2003

JANE HARPER
101 MAIN STREET
ANYTOWN, USA 12345

Social Security Number: 999-19-9999
Taxable Marital Status: Married
Exemptions/Allowances:
Federal: 3, \$15 Additional Tax
State: 2
Local: 2

Earnings	rate	hours	this period	year to date
Regular	10.00	32.00	320.00	16,640.00
Overtime	15.00	1.00	60.00	780.00
Holiday	10.00	8.00	37.43*	4,160.00
Tuition				1,946.80
Gross Pay			\$ 452.43	23,526.80

Deductions	Statutory	this period	total to date
Federal Income Tax			
State Income Tax			
Local Income Tax			
Other Benefits and Information			
Group Term Life			
Loan Amt Paid		.51	27.00
Vac Hrs			

0.9% Medicare Tax



- › **Applied to wages & self-employment income in excess of:**
 - **Single taxpayers > \$200,000**
 - **MFJ taxpayers > \$250,000**
- › **Employer is required to withhold from wages**
- › **Self-employment loss does not reduce amount of tax**

0.9% Medicare Tax



Case One

Single taxpayer with *high* wages and S/E loss

Wages	\$300,000
Less partnership loss	<u>\$60,000</u>
Total S/E income	\$240,000

Medicare tax is \$900

\$300,000 W-2 - \$200,000 threshold X 0.9%

0.9% Medicare Tax



Case Two

Single taxpayer with *low* wages and *high* S/E income

Wages	\$20,000
Partnership income	<u>\$280,000</u>
Total S/E income	\$300,000

Medicare tax is \$900

(\$280,000 partnership income - \$180,000 threshold (\$200,000 threshold - \$20,000 wages) X 0.9%)

Other Tax Measures included in...



The Affordable Care Act

- › **Medical itemized deduction threshold increased to 10% from 7.5% (2013)**
- › **Maximum pre-tax FSA reimbursable amount reduced to \$2,500 from \$5,000 (2013)**
- › **Large employers (>250 W-2s in 2011) must report value of employer-sponsored, employee health coverage on each W-2 (2012)**
- › **Adoption of credit and assistance programs expire in 2012**

Uncertain Future



2014 & beyond...

- › **Tax reform coming?**
- › **Increase Tax Rates**
 - Individuals, “high income” taxpayers
 - International, minimum taxes on foreign profits
- › **Increase Tax Base**
 - Individuals, limitations on itemized deductions
 - Corporations, limitations on deductions/preference items

Other Items to Note



State Tax Update

› Oregon

- Corp tax rate 6.6% in 2013 (7.6% over \$10M)
- Individual tax rate 9.9% in 2012

› California

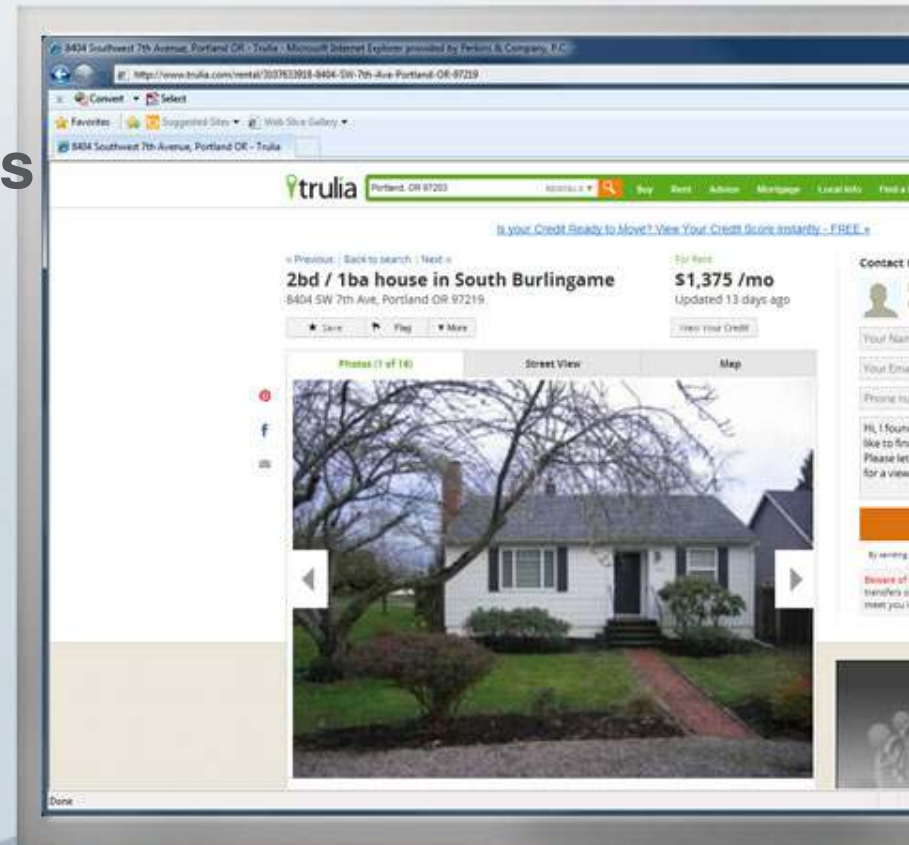
- Individual tax rates 10.3-12.3% in 2012
- Single sales factor apportionment for business in 2013

Other Items to Note



Portland/Multnomah County Update

- › **Rental Real Estate**
 - City of PDX, no exemptions for < 10 rentals if only business activity for 2012
 - \$50k gross receipts exemption still applicable
 - Multnomah County, no change



Other Items to Note



Portland/Multnomah County Update

› Real Estate Brokers

- Brokers acting as agents of a principal real estate broker exempt from City of PDX tax
- Must be only business activity
- Multnomah County, no change (still taxable activity)



Other Items of Note



Portland/Multnomah County Update

- › **Recent Audit Activity**
 - LLC owner's compensation deduction for rental real estate
 - Must provide detail of activities with hours

- › **City of Portland Arts Tax**

Arts Education & Access Tax



- › **\$35 tax imposed on the income of each income-earning resident of the City of Portland who is at least 18 years old**
- › **No tax will be imposed on filer(s) within any household that is at or below the federal poverty guideline for that tax year**
- › **No proration for part-year residents**
- › **Returns due on April 15th, no extension available, \$15 penalty if not paid by 4/15**
- › **Mail in the form with payment or file and pay online**



Arts Education & Access Tax



- › **Income: all income is considered regardless of amount, whether taxable or non-taxable**
 - Wages
 - Self-employment income
 - Investment income
 - Rental income
 - Retirement income
(including Social Security)
 - Disability income
 - Spousal/Child support
 - Any other source



Arts Education & Access Tax



- › **Resident of the city: an individual who is domiciled in the City unless**
 - Maintains no permanent place of abode in the City;
 - Maintains a place of abode outside the city; and
 - Spends in the aggregate not more than 30 days during the tax year in the city

Note: Portland address does not always mean household is in the city limits



Contact



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